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PROSPECTS FOR INTERNATIONAL AIR TRANSPORT

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PROSPECTS FOR INTERNATIONAL AIR TRANSPORT

SUMMARY

The danger that the UK will split with the US on international air policy now seems less acute (in spite of heated debate within the UK Government regarding future policy) than it did immediately after the failure of the Geneva Conference in November 1947 to adopt a multilateral civil air transport agreement. Nevertheless, in the absence of a multilateral agreement, the structure of international air transport will remain unstable and susceptible to deterioration, because contracting parties can demand renegotiation of existing bilateral agreements at any time and can cancel them on due notice. The weaker air transport countries will continue to seek to limit commercial air operations of foreign long-range carriers in order to protect their own air lines. US-UK collaboration in foreign air policy, however, if continued, will frequently be able to impose liberal principles on other countries in situations sufficiently important to justify political pressure at high levels.

Note: The information in this report is as of 2 March 1948, at which time it was submitted to the intelligence organizations of the Departments of State, Army, Navy, and Air Force for concurrence or substantial dissent.

The Intelligence Organization of the Department of State, the Office of Naval Intelligence, and the Air Intelligence Division, USAF, have concurred in the report; the Intelligence Division, Department of the Army, had no comment.

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PROSPECTS FOR INTERNATIONAL AIR TRANSPORT

1. US-UK Cooperation in International Air Policy.

In February 1946 the US and UK agreed at Bermuda mutually to recognize the principles of fair and equal opportunity to engage in air commerce under competitive conditions. This agreement was further extended, in September of the same year, in an understanding that both countries follow a common policy of inserting in their air agreements with other powers the principle of "Fifth Freedom." This principle (the right to pick up or put down air traffic in territory of the other country destined for or originating in a third country) is essential to the US if long-range operations are to pay their own way. As a result of combined US-UK efforts, more than thirty other countries have accepted "Fifth Freedom" in agreements with either the US or UK and many have adopted the "Bermuda" formula in their negotiation of air agreements with other countries.

2. Present Instability of World Air Agreements.

In spite of wide acceptance of the "Bermuda" formula, the structure of bilateral agreements throughout the world remains unstable, as bilateral agreements are liable to renegotiation or termination upon due notice. Had the right to "Fifth Freedom" traffic been incorporated in a multilateral treaty at Geneva in November 1947, the pattern of world air transport would have crystallized on lines permitting long-range international aviation to develop with the minimum of restriction. The conference at Geneva failed in its purpose because, though they were willing to concede these principles in bilateral agreement with countries of their choice, many countries were unwilling for political or economic reasons to concede them on a multilateral basis.

3. Attitude of the Lesser Air Transport Countries.

The restrictionist countries oppose a multilateral treaty for the following reasons:

a. Fear on the part of weaker countries that competition with the world's most experienced and powerful air carriers would, in practice, result in the eventual elimination of their own air services;

b. Insistence by many countries on a proprietary right to traffic originating in their own territory;

c. Belief, on the part of some countries, that unrestricted competition for the world's airways offers a potential source of international friction, and that international air transportation should be operated with a pool of aircraft by an international organization; and,

d. Preference for the bilateral type air agreement as affording greater latitude in bargaining.

Having demonstrated at Geneva their collective ability to defeat US-UK aims, these countries are now encouraged to renew attempts to restrict special areas for the benefit of their own air carriers. For example, Argentina is attempting to reserve the air traffic of its neighbors to the air lines of the region and to exclude long-range carriers from local "Fifth Freedom" benefits. The strategically located Arab League States (al-

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though in some cases granting "Fifth Freedom" to the US in return for other considerations) have made plain their desire to limit local interstate air traffic to their own air lines. Mexico has flatly denied to the UK any traffic available at Mexico City for destinations to the South. China is willing to accord "Fifth Freedom" rights to other countries in exceptional cases only.

4. PROSPECTS FOR CONTINUED US-UK COLLABORATION.

Failure to stabilize fundamental principles of international aviation through a multilateral treaty has increased the importance to the US of the present US-UK policy of mutual support.

The future of British civil aviation is now the subject of intense debate within the government, and strong pressures are being exerted to force a modification of UK air policy. The issue has been brought to a head by the basic "Fly British" policy requiring use of available aircraft even though proved to be unsuitable for commercial operations. While this has afforded protection for the entrenched British aircraft industry, it has also resulted in critical operating losses ($40 million in the last fiscal year). The Civil Aviation Act of 1946 requires that subsidies for the nationalized air lines decrease progressively after 1948; yet the prospects are that greater subsidies will be needed to retain present services in view of growing operating deficits. The government now must choose its course of action from the following: (a) a further drastic reduction of air services (this would meet the public clamor for economies in air-line operations); (b) amendment to the Civil Aviation Act authorizing subsidies at the present or increased rates, thus permitting continuation of all air services required by national prestige; or (c) acquisition of modern US air transports. (The US has offered particularly advantageous terms to the UK for the purchase of Constellations and C-54's; the Dutch and Scandinavians have demonstrated that these aircraft can produce profits.)

If the UK is impelled to initiate drastic retrenchment in its air services, it may depart gradually from the liberal objectives of present US-UK air policy and have recourse to agreements with other countries providing for a pooling of resources with arbitrary division of traffic and, therefore, less onerous competitive operations. The UK, however, might be reluctant to make such a move if it should result in an accelerated trend toward world-wide limitation of commercial air rights, anticipating strong US objection to restriction of US long-range air operations. Legislative authorization for increased subsidies for the nationalized British air lines is not likely to be obtained at this time. A move to purchase efficient US air transports, on the other hand, would be vigorously resisted by the politically powerful British aircraft industry.

It appears probable that in this dilemma the British Cabinet will: (1) relax its support of the UK air industry to the extent of permitting use of US transports during the next few years on the more important routes; (2) direct the controlled UK aircraft industry to concentrate on a research and development program of advanced types for future use, thus continuing a degree of financial support, but terminating the expensive and unsatisfactory efforts of the UK aircraft industry to produce interim-type air transport; and (3) insist that harmonious air transport relations with the US be maintained at all costs.

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A British decision to continue US-UK cooperation in international air policy would be a powerful aid to the US in preserving world conditions favorable to international aviation. It would also be a strong deterrent to a war of subsidies between countries operating their air lines as instruments of national prestige. Although these countries may be able to demand or withhold concessions on relatively minor issues, they will frequently be unable to deny rights to the US and UK if the issues are sufficiently important to warrant strong combined US-UK pressure at high levels.

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